

Message Text

CONFIDENTIAL

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42

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----- 125701

O 311012Z JAN 76

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 4456

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 0758

STADIS////////////////////////////////////

EXDIS

E.O. 11652: GDS

TAGS: EAID EFIN, ECON SP

SUBJECT: LETTER FROM FINANCE MINISTER TO SECRETARY REQUESTING
U.S. ECONOMIC ASSISTANCE

REF: MADRID 560

1. MINISTER OF FINANCE VILLAR MIR HAS ASKED ME TO FORWARD TO SECRETARY KISSINGER A LETTER (EMBASSY TRANSLATION OF WHICH FOLLOWS) SPELLING OUT IN DETAIL REQUESTS FOR U.S. ECONOMIC ASSISTANCE TO SPAIN AND PROPOSING GOS MISSION AT DIRECTOR GENERAL (ROUGHLY ASSISTANCE SECRETARY) LEVEL TO WASHINGTON WEEK OF FEB 16. LETTER IS FOLLOW-UP TO VILLAR MIR'S DINNER CONVERSATION WITH SECRETARY JAN 24.

2. SPECIFICALLY VILLAR MIR CITES DIFFICULT ECONOMIC SITUATION FACING SPAIN, PARTICULARLY FROM GROWING FOREIGN INDEBTNESS, STRESSES NEED TO AVOID ECONOMIC TRAUMA IF POLITICAL EVOLUTION IS TO BE MAINTAINED, AND CALLS AMONG OTHER THINGS FOR FOLLOWING:

- A. GRANTING OF GSP
 - B. NO U.S. QUOTAS ON SHOES AND HIDES
 - C. INCREASED CREDITS FROM EXIM WITH FEWER DEMANDS FOR GOVERNMENT GUARANTEES
 - D. AN APPROXIMATELY 15 YEAR, LOW INTEREST USG LOAN WITH 5-YEAR GRACE PERIOD FOR 1/3 TO 1/2 OF \$11 BILLION FOREIGN
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DEBT ESTIMATED BY END OF 1976

E. A 4 OR 5 MAN MISSION TO WASHINGTON THE WEEK OF FEB 16 OR 23 BY OFFICIALS OF THE MINISTRIES OF FINANCE, INDUSTRY AND COMMERCE

F. A MINISTERIAL MISSION TO WASHINGTON IN MARCH OR FIRST HALF OF APRIL TO FINALIZE AN AGREEMENT.

3. FOLLOWING IS INFORMAL TRANSLATION OF FULL TEXT OF VILLAR MIR'S LETTER:

BEGIN QUOTE. MR. SECRETARY: I AM WRITING TO YOU TO CONTINUE AND TO CONFIRM OUR CONVERSATION AT THE DINNER IN MADRID LAST SATURDAY, JANUARY 24. THE PURPOSE OF THIS LETTER IS:

-TO SPELL OUT THE PROBLEM AREAS AND TO SUGGEST A PROCEDURE TO BE FOLLOWED FOR PROVIDING EFFECTIVE ECONOMIC ASSISTANCE FROM THE U.S. TO SPAIN.

1. BACKGROUND

1.1 THE U.S. HAS REPEATEDLY EXPRESSED ITS DESIRE TO HELP SPAIN AT THIS TIME WHEN OUR COUNTRY IS ENTERING A NEW STAGE.

1.2 THE AGREEMENTS SIGNED JANUARY 24 BY THE FOREIGN MINISTERS OF THE U.S. AND SPAIN INCLUDE PROPOSALS FOR COOPERATION IN VARIOUS FIELDS, AND PARTICULARLY IN ECONOMICS (ANNEX NO. 2 SIGNED ON THE SAME DATE).

1.3 THE AGREEMENTS THAT WERE SIGNED REPRESENT EXCELLENT DECLARATIONS OF INTEREST IN ECONOMIC COOPERATION. REALISTICALLY, IT IS NECESSARY TO SPELL THESE OUT IN CONCRETE AND QUANTIFIED PROPOSALS.

1.4 THERE ARE IMPORTANT COMMERCIAL AND INDUSTRIAL TIES BETWEEN THE U.S. AND SPAIN.

SPANISH-U.S. TRADE IS SERIOUSLY UNBALANCED IN FAVOR OF THE U.S. WITH A SPANISH TRADE DEFICIT WITH THE U.S. OF \$1.7 BILLION A YEAR.

INDUSTRIAL COOPERATION SHOULD BE INCREASED, BOTH THROUGH INVESTMENTS BY AMERICAN FIRMS AND BY THE PURCHASE OF AMERICAN MACHINERY AND EQUIPMENT FINANCED BY EXIM BANK.

1.5 SPAIN IS GOING THROUGH A TRULY DIFFICULT ECONOMIC SITUATION, AND IF THE ECONOMIC PROBLEMS ARE NOT RESOLVED WITH THE NECESSARY FOREIGN COOPERATION, THEY COULD MAKE IT IMPOSSIBLE TO ACHIEVE THE GOAL OF POLITICAL EVOLUTION WHICH IS ONLY POSSIBLE IN A CLIMATE
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OF ECONOMIC STABILITY.

1.6 U.S. SUPPORT TO THE SPANISH ECONOMY WOULD PERMIT: THE CONTINUED DEVELOPMENT OF OUR COUNTRY UNDER A FREE MARKET ECONOMIC SYSTEM AND ACHIEVEMENT OF A SATISFACTORY RELATIONSHIP OF INTERNATIONAL COOPERATION BETWEEN THE U.S. AND OTHER COUNTRIES PROVIDING AN EXAMPLE APPLICABLE IN THE FUTURE TO OTHER COUNTRIES.

2. POSSIBLE AREAS OF COOPERATION: ACTIVE COOPERATION BY
THE U.S. IS SEEN AS NECESSARY IN THE FOLLOWING FIELDS:
FOREIGN TRADE
INDUSTRIAL DEVELOPMENT
FOREIGN FINANCING
2.1 FOREIGN TRADE: THE AREAS WHERE FUNDAMENTAL
PROBLEMS ARE PENDING ARE THE FOLLOWING:
2.1.1 TO GRANT GSP IN CONFORMITY WITH THE U.S. TRADE ACT
OF 1974 AND AS CALLED FOR IN ARTICLE 6 OF ANNEX 2.
2.1.2 THAT, IN ACCORDANCE WITH ARTICLE 2 OF THE LAST
PARAGRAPH OF ANNEX 2, QUOTAS NOT BE PLACED ON SPANISH
EXPORTS OF SHOES AND HIDES.
2.1.3 CLARIFICATION OF REGULATIONS APPLICABLE TO IMPORTS
FROM SPAIN OF BOTTLED FOOD PRODUCTS, INCLUDING OLIVES.
2.2 INDUSTRIAL DEVELOPMENT
2.2.1 PROMOTION OF U.S. INDUSTRIAL INVESTMENT IN SPAIN
THROUGH THE NECESSARY CREATION OF A POSITIVE INVESTMENT
CLIMATE.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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O 311012Z JAN 76

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 4457

C O N F I D E N T I A L SECTION 2 OF 2 MADRID 0758

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2.2.2 EXIM FINANCING. TO FACILITATE EXPORTS OF MACH-
ERY AND EQUIPMENT FROM THE U.S. TO SPAIN FOR THE BENEFIT
OF BOTH, EXIM SHOULD BE ENCOURAGED TO UNDERTAKE TWO
FUNDAMENTAL STEPS:
INCREASE CREDIT LIMITS FOR SPAIN
REDUCE ITS DEMANDS FOR GUARANTEES ON PRIORITY INDUSTRIAL
PROJECTS PROMOTED BY GOVERNMENT.

2.2.3 ALSO OF INTEREST FOR PURPOSES OF AGRICULTURAL DEVELOPMENT AND LAND REFORM WOULD BE:

TECHNICAL ASSISTANCE

FINANCIAL ASSISTANCE

2.3 FOREIGN A FINANCING

SPAIN'S FOREIGN DEBT AT THE END OF 1975 WAS APPROXIMATELY \$8.7 BILLION.

THE CURRENT ACCOUNT DEFICIT IN 1974 WAS \$3.1 BILLION AND IN 1975 \$2.9 BILLION.

IN 1976 THERE WILL INVITABLY BE ANOTHER DEFICIT ON THE ORDER OF 2.5 BILLION.

BASED ON THAT, IF FOREIGN EXCHANGE RESERVES ARE TO BE MAINTAINED AT THEIR PRESENT LEVEL, A NECESSARY FACTOR FOR STABILITY IN THE SHORT TERM, FOREIGN DEBT AT THE END OF 1976 WOULD EXCEED \$11 BILLION.

REPAYMENT OF PRINCIPAL AND INTEREST ON THIS DEBT IMPLIES AN ANNUAL PAYMENT IN EXCESS OF 2 BILLION DURING THE NEXT SIX YEARS, AN AMOUNT THE SPANISH ECONOMY CANNOT HANDLE WITH OUT GRAVE DIFFICULTIES.

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IN ORDER TO ALLOW FOR A NORMAL EVOLUTION OF THE SPANISH ECONOMY AND A CORRECTION IN OUR CURRENT DEFICIT WITHOUT PRODUCING ECONOMIC TRAUMA IN THE COUNTRY, IT IS NECESSARY TO OBTAIN LONG-TERM CREDITS (ON THE ORDER OF 15 YEARS WITH A FIVE YEAR GRACE PERIOD) AND AT LOW INTEREST, SOMETHING WHICH IS PRACTICAL ONLY THROUGH GOVERNMENT TO GOVERNMENT LOANS.

THE THREE POSSIBLE SOURCES FOR SUCH AID ARE:

THE U.S.

COMMON MARKET COUNTRIES

OIL PRODUCERS

NEGOTIATION WITH THE U.S. FOR AMOUNTS OF FROM 1/3 TO 1/2 OF THE DEBT ESTIMATED AS OF THE END OF 1976 IS CONSIDERED NECESSARY BOTH IN ITS OWN RIGHT AND AS A PRECEDENT FOR NEGOTIATIONS WITH OTHER COUNTRIES.

3. THE NEXT STEPS FOR DISCUSSING THESE POINTS IN DETAIL WITH U.S. GOVERNMENT OFFICIALS SHOULD BE THE FOLLOWING:

DURING THE WEEK OF FEBRUARY 16 OR FEBRUARY 23 A SPANISH MISSION OF FOUR OR FIVE PERSONS AT THE DIRECTOR GENERAL LEVEL FROM THE MINISTRIES OF FINANCE, INDUSTRY AND COMMERCE WOULD GO TO WASHINGTON TO DISCUSS THESE SUBJECTS WITH U.S. GOVERNMENT OFFICIALS.

AFTER THE NECESSARY DETAILED STUDIES, A SPANISH MISSION AT THE MINISTERIAL LEVEL WOULD GO TO WASHINGTON TO FINALIZE THE AGREEMENT. GIVEN THE URGENT NATURE OF THESE ECONOMIC PROBLEMS, IT WOULD BE HELPFUL FOR THE MINISTERIAL MISSION TO BE ABLE TO PLAN NOW TO GO IN

MARCH, OR, IF LATER, DURING THE FIRST TWO WEEKS OF APRIL.
MY THANKS TO YOU, MY DEAR MR. SECRETARY, FOR THE TIME
YOU HAVE DEVOTED TO COOPERATION BETWEEN THE U.S. AND
SPAIN. I AM CONFIDENT THAT WITH THE POLITICAL WILL TO
HELP US THAT TRULY EXISTS IN THE GREAT AMERICAN NATION,
WE SHALL BE ABLE TO HANDLE, WITHOUT DELAY, THESE GRAVE
ECONOMIC PROBLEMS FOR SPAIN, THE SOLUTION OF WHICH REQUIRES A
FIRM AND FAVORABLE ATTITUDE FROM THE U.S.
I AWAIT YOUR REPLY AND IN PARTICULAR THAT YOU SET THE DATES
FOR THE VISIT OF OUR MISSION IN FEBRUARY.
VERY SINCERELY,
SIGNED
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END QUOTE

4. EMBASSY COMMENTS FOLLOW SEPTTEL.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, DIPLOMATIC COMMUNICATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JAN 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MADRID00758
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760038-0613
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976012/aaaaabdc.tel
Line Count: 245
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS, EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS, EXDIS
Reference: 76 MADRID 560
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 05 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 MAY 2004 by ellisoob>; APPROVED <07 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LETTER FROM FINANCE MINISTER TO SECRETARY REQUESTING U.S. ECONOMIC ASSISTANCE
TAGS: EAID, EFIN, ECON, SP, US, (KISSINGER, HENRY A), (VILLA MIR, JUAN MIGUEL),
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006